

MdTA RESPONSE TO DLS ANALYSIS

DLS Budget Analysis

**1. Performance Analysis: Managing for Results – Electronic Toll Collection
(Page 10)**

The MdTA should comment on the future of E-ZPass and how it relates to congestion mitigation and improvements in the toll collection process.

MdTA Response:

Increased use of electronic toll collection (ETC) is a vital component of the Authority's congestion mitigation and customer service programs. Current dedicated E-ZPass lanes are capable of processing approximately 1,100 vehicles per hour, which is over twice the rate of a manual collection lane. As indicated by the analyst, the Authority is tracking E-ZPass usage, striving to increase usage, and plans to include performance measures as part of the FY 2006 budget submission. The Authority's efforts to expand E-ZPass usage focus on: 1) improving the product, and, 2) increasing product awareness.

In order to improve our product the Authority has created higher speed dedicated E-ZPass lanes at the Key Bridge (30 mph) and John F. Kennedy Highway (15 mph) and is in the process of improving the dedicated lanes at the Bay Bridge. Customer surveys are being conducted to better predict future E-ZPass usage. An ongoing study regarding conversion of existing toll plazas to provide higher speed dedicated lanes will utilize this survey data and should be completed by this summer. In order to increase product awareness, the Authority has developed an extensive marketing campaign, including radio advertisements, to promote E-ZPass usage. In October the Authority took the additional step of offering free transponders to business account holders for the 90-day period between November 1st and January 31st. This program was especially important to high volume business accounts utilizing the three Baltimore Harbor Crossings.

Although cash toll collection will continue to be an option in Maryland for some time to come, E-ZPass and electronic toll collection methods in general constitute the single best congestion relief measure available to toll collection agencies.

DLS Budget Analysis Issues

1. InterCounty Connector

1a. GARVEE BONDS (Page 24)

DLS recommends that the General Assembly should pass legislation or adopt provisions in the Budget Reconciliation and Financing Act that would amend the Transportation Article to impose debt ceiling limits and a coverage test on GARVEE bond issuances made by either MDOT or MdTA. Specifically, GARVEE issuances should be constrained in the following manner:

- **the total amount of GARVEE debt outstanding should not exceed \$500 million;**
- **anticipated debt service payments on GARVEE bonds should not exceed 10% of the State’s total annual federal highway aid; and**
- **GARVEE issuances should not exceed 15 years’ maturity.**

MdTA Response:

The Authority respectfully does not concur with the recommendation.

The Maryland Transportation Authority (MdTA) and Department of Transportation adhere to prudent debt management practices, allowing MdTA and MDOT to maintain their respective high “A” and “AA” bond ratings. The MdTA and MDOT are committed to manage GARVEE debt in the same conservative manner, as has been the case with Authority debt and the Department’s consolidated transportation bonds and other non-traditional debt.

The genesis for the issuance of GARVEE bonds for funding the ICC arose during the course of the Hellmann Commission’s work. Governor Ehrlich supports the Hellmann Commission’s \$4.7 billion increase in transportation projects expenditures which will fund projects in every corner of the State. During the 2002 Session, GARVEE legislation was adopted unanimously by the General Assembly. There does not seem to be a reason to reverse this position by adopting the recommended restrictions. These restrictions would undercut the Governor’s vision for transportation projects in every corner of the State. The Department believes that the Legislature would not want to sabotage the Governor’s vision.

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The limits as recommended by DLS are arbitrary and have little to do with any standards that should govern the amount of debt that can be issued. Why was \$500 million selected as the maximum amount outstanding? Why was 10% of total annual federal aid selected? If the General Assembly agrees with the Spending Affordability Committee to establish limits on GARVEE bonds, then the Department suggests that those limits be established based on sound professional advice. The Authority, with the cooperation of the Department of Transportation, is agreeable to have our financial advisors conduct an analysis of potential guidelines for GARVEE bonds for Maryland and report back to the budget committees by a mutually agreeable date.

1b. ICC Financing (Page 25)

Issue: DLS recommends that MdTA comment on (1) when and on what basis the \$1.7 billion cost estimate was made; (2) the total estimated cost of the ICC given that it will very likely exceed \$1.7 billion; (3) the role of GARVEE bonds in ICC financing; (4) anticipated contributions from the TTF; (5) potential litigation and project impact; and (6) the MdTA proposal to acquire the ICC and the MdTA/SHA relationship.

MdTA Response:

1. basis of the \$1.7 billion cost estimate:

The \$1.7 billion estimate of the ICC was based on estimates prepared for the alternatives that had been evaluated in the previous work on the project (through 1997). It is recognized that estimate is preliminary in nature.

2. the potential increase in project cost above \$1.7 billion:

As noted above, it is recognized that the \$1.7 billion estimate is preliminary and subject to change, dependent upon the results of the environmental studies, changes in scope of work addressing community and environmental issues, and schedule of project implementation. Revised costs estimates will be prepared as part of the ongoing project planning /environmental studies.

The concept-funding plan for the project was developed to provide sufficient flexibility to address changing conditions, including potential increases in project cost.

3. the role of GARVEE bonds in ICC financing:

GARVEES, or Grant Anticipation Revenue Vehicles, are bonds whose debt service is paid with federal transportation funds received by a State. GARVEES have been issued by at least 11 states, and are generally well regarded in the bond market. GARVEES have been rated either “AA” or

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“A” – both of which are good investment grade ratings. This compares to the MDOT bond rating of “AA” and the MdTA rating of “A.” The use of GARVEES was initiated by the Legislature in 2002, pursuant to SB 533 which passed without a single dissenting vote in either House.

GARVEES are one of several components of the ICC concept-funding plan. Use of GARVEES on the ICC will allow full implementation of Governor Erlich’s vision of \$4.7 million in transportation spending aimed at building transportation projects in every corner of the State. Tolls on the ICC are expected to pay for approximately 1/3rd of the project cost.

Assuming \$60 million per year in federal funds would pay for GARVEE debt service, this will be between 6% and 11% of total federal funds available to Maryland. Federal revenues available to Maryland (\$530 million per year estimate) will be more than 8 times the \$60 million per year debt service. This ratio far exceeds minimum industry standards (1.25 to 1), the MDOT minimum standard (2.5 to 1) and the ratio used by most other states in their GARVEE programs.

4. anticipated contributions from the TTF:

The ICC concept funding plan suggests a range of potential funding from the TTF, including: \$50 - \$300 million in state and/or regular (formula) federal highway funds, and \$10 - \$50 million in special federal funds that might be received as a result of special congressional designation in authorizing legislation or annual appropriations bills. The ranges presented in the plan are intended to provide sufficient flexibility to address a number of as of yet unresolved issues, including, for example, the toll financing capability of the ICC, the amount of special federal funding that might be obtained for the project, market conditions related to bond sales for the project, and revenues available to the Department of Transportation. Given that the project’s construction is not likely to begin for some two years, it is appropriate to preserve flexibility to respond to conditions, as they will change in the coming years.

5. potential litigation and project impact:

The State of Maryland and interested federal agencies are conducting the study of the project with utmost care and diligence in regard to the requirements of the National Environmental Policy Act (NEPA) and other applicable laws and regulations. Although there can be no guarantee that lawsuits will not be filed, every effort is being made to reduce the possibility of litigation that might delay the implementation of the project.

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6. MdTA proposal to acquire the ICC and the MdTA / SHA relationship:

Considering that the ICC will be a toll project, it should be undertaken using the capability and experience of the agency that operates and owns Maryland's toll bridges, tunnels, and highways. The strength of the Authority – stemming from its pooled revenues from toll facilities - brings to the ICC project a high degree of financial certainty and predictability.

The Authority is undertaking various actions that will lead to an official adoption of the ICC as an Authority project. As outlined in the DLS narrative, the Authority and the State Highway Administration will be partners in the project, with SHA continuing its lead role in the planning, design and approval process. SHA is likely to take the lead in construction management. Decisions regarding responsibilities for operation and maintenance of the facility are yet to be made.

In its narrative, DLS made several points regarding the advantages of MdTA's participation in the project. These merit strong emphasis. The Authority's involvement in the ICC will support Governor Ehrlich's vision for improved transportation throughout Maryland. The MdTA's involvement in the ICC makes it possible to allocate substantial funding for other projects. The very uncertainties relative to project cost outlined by DLS offer compelling justification for the use of the Authority; MdTA's strong financial position can provide a "safety net" for the project, allowing it to proceed with minimal impact on the MDOT capital program.

In the past, the Authority's and its predecessor's financial capabilities were employed to facilitate the implementation of extraordinary transportation projects, including the John F. Kennedy Memorial Highway, the Chesapeake Bay Bridge, the Baltimore Harbor Tunnel, the Key Bridge, the Fort McHenry Tunnel, the Seagirt Marine Terminal, the Masonville Automobile Terminal, and improvements to Piers D, C and B and other facilities at BWI. Revenue bonds were used for many of these extraordinary projects, including 40-year bonds for the JFK Highway, Baltimore Harbor Tunnel, and second span of the Chesapeake Bay Bridge. Now, in the case of the ICC, the Authority can play a pivotal role in making possible a major new highway which was recognized by the Legislature in its 2002 Resolution with potential "to facilitate access between Montgomery County, Prince George's County, Greater Baltimore, and other locations throughout the State of Maryland..."

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1c. Review and Comment On Proposed Additions to MDTA facilities (Page 25)

DLS recommends that the General Assembly should pass legislation to require the Legislative Policy Committee or budget committees to review and comment on proposed additions to MdTA facilities.

MdTA Response:

As noted in the DLS narrative, under Maryland Transportation Code, Annotated 4-205 (2) MdTA is required to notify the Legislative Policy Committee in advance of any proposed contract or agreement to acquire or construct revenue producing transportation facilities project. MdTA has made the appropriate notification regarding the intent to undertake the initial phases of the ICC project (planning and right-of-way acquisition) through its January 22, 2004 letter. The Legislative Policy Committee, other committees, and members of the General Assembly can review and comment upon this proposed action.

The Maryland Transportation Authority and Department of Transportation have previously indicated in other forums the possibility that the ICC would be undertaken as an Authority project. In September 2003, the Authority made a presentation to the Transportation Task Force chaired by former Secretary of Transportation Hellmann, at which it indicated that the ICC would likely be undertaken as an Authority project. More recently, the FY 2004-2009 Consolidated Transportation Program was released, indicating the intent to fund the project as MdTA project.

Projects such as the ICC are developed over a long period of time, often extending over several sessions of the General Assembly. Budget committees have opportunities to review, question, and offer comment and guidance on the projects.

It would seem unnecessary for the Legislature to pass legislation requiring its review and comment on projects, when such opportunity is already inherent in the existing notification process.

2. Forecast and Toll Increases (Page 26)

DLS recommends that MdTA update the committees on the expected impact of the addition of the ICC project on the revenue, operating and capital programs, and out-year financial forecast.

MdTA Response:

As acknowledged by DLS last year at this time, the Maryland Transportation Authority must significantly expand its capital program to address the requirements of the twenty year long-range capital needs study completed several years ago. The DLS analysis indicated that the Authority's financial forecast showed a significant deficit could develop in the out-years based on the substantial capital expenditure requirements and what was then the current toll revenue stream.

Over the last year, Authority members have carefully reviewed the MdTA financial position and have considered alternatives relating to refinement of the capital program, bond issuances, and revenue enhancements. Authority members approved toll increases at five facilities that are estimated to provide MdTA with sufficient revenues to finance the FY 2004 – FY 2009 capital program while maintaining reasonable cash reserve levels. The current conceptual finance plan for the ICC project is a balanced plan which contemplates funding from the following sources: GARVEE bonds; MdTA revenue bonds – ICC tolls; MdTA revenue bonds – system; and MDOT Transportation Trust Fund and special federal funds.

The Authority has provided DLS with an updated financial forecast which incorporates the ICC project. As shown in the forecast, based upon the conceptual finance plan, the financing of the ICC can be accomplished while at the same time maintaining appropriate debt service and covenant coverage compliance requirements and maintaining financially prudent cash balance levels.

3. Toll Sponsorship Program at the Chesapeake Bay Bridge (Page 27)

DLS recommends budget bill language to prohibit State agencies from participating in the Toll Sponsorship Program due to the fiscal condition of the State and uncertainty of the program's results.

MdTA Response: The Authority and the Maryland Lottery respectfully do not concur with the recommendation. The Bay Bridge Sponsorship Program provided important benefits to the Maryland Transportation Authority, the Maryland Lottery and the traveling public without an increase in an existing State agency advertising budget. Although the Authority expects to generate more private sector interest in Bay Bridge sponsorships this year, precluding the Lottery or any other State agency from participating unnecessarily limits the ability of both agencies to expand on the benefits experienced this past year. A summary of the program's benefits to the Authority is as follows:

- Proved that a sponsorship program could be implemented without an adverse impact to public safety;
- Assisted in the Authority's campaign to educate the public regarding the benefits of off-peak travel;
- Attracted a private sector sponsor (The Ocean Conservancy) after the implementation of two Lottery sponsored events had proven popular;
- Shifted more travel to the non-peak travel during the Labor Day weekend (4th sponsorship event). Specifically – the actual number of eastbound vehicles traveling during the non-peak period increased by 18.3 percent while the number of eastbound vehicles traveling in the peak period increased by only 9.4 percent during the Labor Day Weekend.

Although it is impossible to attribute all the positive traffic outcomes specifically to the toll sponsorship program the Authority urges the budget committees to support future Bay Bridge congestion measures, particularly when the sponsoring State agency receives the following benefits:

- A valuable person-to-person marketing impression in the form of brochures handed out at toll plazas for a seven day period for each event sponsored;
- Signs on tollbooths;
- Extensive media coverage by newspaper, television and radio outlets;
- Sponsor's name placement on the "Welcome to the Eastern Shore" sign located immediately after the Bay Bridge Eastbound crossing;
- Sponsorship information on the BAYSPAN hotline;
- Banner ads on the Authority's official website and the Bay Bridge information website;
- Sponsor's banner ad on the Maryland SHA's "CHART" website;
- Highway Advisory Radio (HAR) broadcasts.

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